

## Message Text

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PAGE 01 BRASIL 04187 270705Z

ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AGRE-00 CIAE-00 COME-00  
INR-07 LAB-04 NSAE-00 EPG-02 SP-02 STR-04 TRSE-00  
FRB-03 OMB-01 SSO-00 INRE-00 /037 W  
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O R 241715Z MAY 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 1800

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY BOGOTA

AMEMBASSY SAN SALVADOR

AMEMBASSY LONDON

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C O R R E C T E D C O P Y FOR ADDEE /AMEMBASSY LONDON ADDED//

E.O. 11652: N/A

TAGS: EAGR BR

SUBJECT: 1977-78 BRAZILIAN COFFEE MARKETING POLICY

REF: (A) BRASILIA 4071 (B) BRASILIA 1680

FOLLOWING MESSAGE DRAFTED IN CONGEN RIO DE JANEIRO:

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SUMMARY: BRAZILIAN GOVERNMENT HAS ANNOUNCED REGULATIONS FOR 1977/78 COFFEE MARKETING YEAR. BEGINNING JULY 1, BRAZILIAN COFFEE EXPORTERS WILL HAVE TO SUPPLY THE DOMESTIC MARKET ONE 60 KG BAG OF COFFEE AT AN ARTIFICIALLY LOW PRICE, IN ORDER TO EXPORT TWO BAGS AT THE FREE MARKET PRICE. END SUMMARY.

1. THE BRAZILIAN COFFEE INSTITUTE (IBC) ISSUED RESOLUTIONS

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PAGE 02 BRASIL 04187 270705Z

21, 22 AND 23/77, ON MAY 20, 1977: RESOLUTION 21/77 SETS UP A NEW PROGRAM EFFECTIVE JULY 1, 1977, TO INSURE THE SUPPLY OF GREEN COFFEE AT A SET PRICE TO DOMESTIC ROASTERS AND SOLUBLE COFFEE MANUFACTURERS. THROUGH THIS PROGRAM, IBC WILL TEMPORARILY SUPPLY ROASTERS AND SOLUBLE COFFEE MANUFACTURERS NOMINAL QUOTA CERTIFICATES THAT WILL ENABLE EACH OF THEM TO BUY A SPECIFIC QUANTITY OF GREEN COFFEE BAGS FROM ANY COFFEE EXPORTER

AT THE CEILING PRICE OF TWO THOUSAND CRUZEIROS PER BAG OF SIXTY KILOGRAMS.

2. RESOLUTION 22/77 (1) OPENS EXPORT REGISTRATIONS FOR JULY AND AUGUST; (2) RAISES THE MINIMUM REGISTRATION PRICE FOR EXPORT OF GREEN COFFEE, EFFECTIVE MAY 23, 1977, FROM US\$3.00 TO US\$3.20 PER POUND, FOR SHIPMENTS MADE DURING THE MONTHS OF JULY AND AUGUST 1977; (3) AUTHORIZES SHIPMENT OF COFFEE OF PREVIOUSLY-BANNED LOWER GRADES 7/8 FROM THE PORT OF VITORIA, STATE OF ESPIRITO SANTO; (4) MAINTAINS UNCHANGED THE VALUE OF THE CONTRIBUTION QUOTA AT US\$143.00 PER BAG OF COMMON GREEN COFFEE; AND (5) REDUCES THE VALUE OF THE CONTRIBUTION QUOTA FROM US\$143.00 TO US\$123.00 PER BAG OF WASHED COFFEE AND/OR DECAFF-EINATED GREEN COFFEE EXPORTED.

3. RESOLUTION 23/77 MAINTAINS UNCHANGED THE FOLLOWING MINIMUM REGISTRATION PRICES FOR SOLUBLE COFFEE, IN FORCE SINCE MARCH 7, 1977, FOR SHIPMENTS TO BE MADE DURING THE MONTHS OF JULY AND AUGUST 1977: A) SPRAY-DRIED US\$7.00 PER POUND. B) FREESE DRIED US\$8.00 PER POUND. ABOVE PRICES WILL BE INCREASED BY US\$1.00 PER POUND IF THE PRODUCT IS EXPORTED IN CONTAINERS FOR FINAL SALE. C) CONTRIBUTION QUOTA OF US\$3.20 PER POUND OF EITHER TYPES OF SOLUBLE COFFEE EXPORTED. CURRENT OFFICIAL EXCHANGE RATE IS CR\$13.63 PER US\$1. FURTHER ANALYSIS AND TRADE REACTION WILL FOLLOW.

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PAGE 03 BRASIL 04187 270705Z

4. COMMENTS: ACCORDING TO IBC OFFICIALS, THE MECHANISM FOR THIS PROGRAM WILL INCLUDE ISSUANCE AND DISTRIBUTION BY IBC TO BRAZILIAN COFFEE ROASTERS AND SOLUBLE MANUFACTURERS OF NOMINAL QUOTA CERTIFICATES (QC) COVERING A MONTHLY TOTAL OF 500,000 BAGS OF GREEN COFFEE. THESE QC ENABLE ROASTERS AND SOLUBLE PRODUCERS TO BUY THE QUANTITY OF GREEN COFFEE SPECIFIED ON EACH QC FROM ANY COFFEE EXPORTER AT THE SET PRICE OF 2000 CRUZEIROS PER BAG. THE CURRENT MARKET PRICE FOR GREEN COFFEE IS ABOUT 3300 CURZEIROS PER BAG. UPON PRESENTATION OF THE QC TO IBC, THE EXPORTER WILL BE PERMITTED TO REGISTER FOR EXPORT 2 BAGS OF GREEN COFFEE FOR EACH BAG OF COFFEE, OF ANY TYPE, SOLD TO ROASTERS.

5. THUS, THE MAXIMUM MONTHLY EXPORTS OF GREEN COFFEE CANNOT EXCEED ONE MILLION BAGS. DOMESTIC ROASTERS AND SOLUBLE MANUFACTURERS CAN BUY ANY QUANTITY OF GREEN COFFEE THEY MAY REQUIRE, AT THE MARKET PRICE, OVER AND ABOVE THE NOMINAL SHARE ALLOCATED TO EACH OF THEM IN THE QC. THESE QC ARE ALLOCATED TO ROASTERS

AND SOLUBLE MANUFACTURERS ON THE BASIS OF THEIR RESPECTIVE AVERAGE MONTHLY SALES DURING THE PREVIOUS QUARTER. THUS, A ROASTER OR SOLUBLE COFFEE MANUFACTURER MUST INCREASE HIS MONTHLY SALES TO THE DOMESTIC MARKET IN ORDER TO REQUEST A FUTURE QC INCREASE.

6. THE GOB'S DECLARED OBJECTIVE FOR THIS PROGRAM IS SIMULTANEOUSLY TO REDUCE THE VOLUME OF COFFEE EXPORTED AND TO GUARANTEE THE SUPPLY OF GREEN COFFEE, AT A LOW PRICE, TO THE BRAZILIAN COFFEE CONSUMER. THE PRICE PAID BY BRAZILIAN CONSUMERS WILL BE SUBSIDIZED BY THE BRAZILIAN COFFEE EXPORT SECTOR AND FOREIGN COFFEE BUYERS. THIS SUBSIDY WILL CONTINUE AS LONG AS THE FREE MARKET PRICE (CURRENTLY CR\$3300/60 KG BAG) REMAINS ABOVE THE DOMESTIC BRAZILIAN FIXED PRICE (CR\$2000/BAG).

7. LIKELY EFFECTS OF THIS RESOLUTION INCLUDE: A) AN INCREASE LIMITED OFFICIAL USE

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PAGE 04 BRASIL 04187 270705Z

IN FOREIGN DEMAND FOR BRAZILIAN COFFEE FOR SHIPMENT PRIOR TO JULY 1, 1977 (THAT IS BEFORE THE ONE MILLION BAG PER MONTH EXPORT LIMIT GOES INTO EFFECT) B) AFTER JULY 1, 1977 ?4-"8)-, COFFEE EXPORTERS WILL ENDEAVOR TO TRANSFER THE COST O THE DOMESTIC CONSUMPTION COFFEE SUBSIDY TO FOREIGN IMPORTERS OF BRAZILLIAN COFFEE. C) THE BRAZILIAN CONSUMER WILL ABSORB MOST OF THE LOW QUALITY COFFEE ESPECIALLY SINCE THE CEILING PRICE OF TWO THOUSAND CRUZEIROS PER BAG TO ROASTERS IS APPLICABLE TO ANY TYPE OF COFFEE.

8. GENERAL COMMENT: AGATTACHE COMMENTS THAT IT REMAINS TO BE SEEN WHETHER AOR NOT BRAZIL WILL LIMIT COFFEE EXPORTS AFTER JULY 1, 1977, TO ONE MILLIN BAGS PER MONTH. AS OUTLINED IN REFTEL A, COFFEE EXPORTS SINCE THE JULY 1975 FREEZE HAVE BEEN WELL ABOVE THE IBC WIDELY PUBLICIZED TARGET LEVEL O ONE MILLION BAGS PER MONTH. IN A MARCH 1, 1977, MEETING, IBC PRESIDENT CALAZANS TOLD AGATT AND EMBOFF (REF B) QUOTE CY 1977 COFFEE EXPORTS COULD EASILY AVERAGE 1.5 MILLION BAGS MONTHLY FOR A TOTAL OF 18 MILLION BAGS FOR THE YEAR END QUOTE.

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## Message Attributes

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